

# **TUOLUMNE COUNTY ASSESSMENT PRACTICES SURVEY**

**OCTOBER 1999**

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## **CALIFORNIA STATE BOARD OF EQUALIZATION**

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E. L. SORENSEN, JR., EXECUTIVE DIRECTOR



# FOREWORD

The county assessor is responsible for the assessment of all taxable property within the county, except state-assessed property. The assessor's responsibilities include such things as: (1) discovering and taking inventory of all property within the county; (2) determining a property's eligibility for a full or partial exemption from assessment; (3) determining the proper assessee; (4) determining the location for assessment purposes of the property; and (5) determining the taxable value of the property in accordance with California property tax law.

Determining taxable value is usually the most difficult and subjective of the assessor's duties. In addition to the inherently subjective nature of the appraisal process, the assessor also has to determine whether the taxable value is to be based on current fair market value or on a restricted value. When there is construction activity on a property, the assessor has to determine whether the construction is to be assessed or whether it is excluded from assessment under the law. When there is an ownership transaction, the assessor has to determine whether the law requires a reassessment of the property or whether the property must continue to be assessed according to the existing value base.

The factors discussed above, as well as others not mentioned here, contribute to making local property tax assessment a difficult tax program to administer. It is also a very important program since the property tax is one of the most important sources of revenue for local governments and public schools. For property owners it is a major annual tax burden, and, since it is normally paid in one or two large installments rather than many small increments, it tends to be more visible than most other taxes. Accordingly, proper administration of the property tax assessment program is vitally important both to the public agencies that rely on the tax and to the people who have to pay the tax.

Although the primary responsibility for local property tax assessment is a function of county government, the State Board of Equalization has a number of duties in the property tax field imposed by the State Constitution and the Legislature. One of these duties, performed by the Board's County Property Tax Division (CPTD), is to conduct periodic surveys of local assessment practices and report the findings and recommendations that result from the survey.

Assessment practices surveys are required by Government Code sections 15640 et seq. These code sections require each county's assessment practices to be the subject of such a survey at five year intervals. The surveys must include research in the assessor's office to determine the adequacy of the procedures and practices employed by the assessor in the assessment of taxable property, compliance with state law and regulations, and other required duties. The surveys may include a sampling of assessments from the local assessment roll to determine eligibility for the cost reimbursement authorized by Revenue and Taxation Code section 75.60.

The assessor was provided a draft of this report and given an opportunity to file a written response to the recommendations and other findings contained in the report. This report, the county assessor's response, and the Board's comments regarding the response constitute the final survey report which is distributed to the Governor, the Attorney General, both houses of the State Legislature; and the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Field work for this this survey report of the Tuolumne County Assessor's Office was completed during April of 1998. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The Honorable David W. Wynne, the Tuolumne County Assessor/Recorder, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

Charles Knudsen, Chief  
County Property Tax Division  
Property Taxes Department  
California State Board of Equalization  
October 1999

# County Property Tax Division Survey Group

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# Table of Contents

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
Introduction.....	1
Overview of the Tuolumne County Assessment Roll .....	2
Findings.....	3
Recommendations and Suggestions .....	4
<b>ADMINISTRATION .....</b>	<b>7</b>
Procedures Manual.....	7
Roll Corrections .....	7
Assessment Appeals.....	8
Low-Value Property Exemption Resolution .....	8
Disaster Relief.....	9
<b>REAL PROPERTY VALUATION AND ASSESSMENT .....</b>	<b>11</b>
Base Year Values .....	11
Change in Ownership.....	11
New Construction .....	13
Declines in Value .....	15
Supplemental Assessments .....	16
Special Property Valuation and Assessment .....	17
California Land Conservation Act Property (CLCA).....	17
Taxable Government-Owned Property .....	18
Possessory Interests.....	19
Water Company Property.....	21
Timberland Production Zone Property.....	22
Mineral Properties.....	23
<b>PERSONAL PROPERTY VALUATION AND ASSESSMENT.....</b>	<b>24</b>
Introduction .....	24
Business Property.....	24
Audit Program.....	24
Business Property Statement Processing.....	26
Business Property Appraisal Record.....	27
Direct Assessment.....	28
General Equipment .....	28
Computers .....	29
Other Taxable Personal Property .....	29
Boats .....	30
Aircraft.....	31
Manufactured Homes .....	33

# **EXECUTIVE SUMMARY**

## **INTRODUCTION**

Regardless of the size of the county, the assessment of property for tax purposes is a formidable task. Proper administration of this task is vital both to government agencies in Tuolumne County and to taxpayers. Because the job is so important and so complex, it is necessary for an independent agency such as the State Board of Equalization (BOE) to make periodic review of the assessor's operation. This survey report is the result of such a review the Tuolumne County Assessor's Office by the BOE's County Property Tax Division (CPTD).

Government Code section 15640, in part, mandates that the State Board of Equalization shall:

(a)...make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her. (c) The survey may include a sampling of assessments from the local assessment rolls sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county. (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

It is apparent from this language that the Legislature envisioned the BOE's office research and appraisal sampling to be parts of a single, connected process, i.e., the evaluation of how well the county assessor is carrying out his or her sworn duty of properly assess all taxable property on the local tax roll. This evaluation was to be based on office research, or in certain circumstances, office research and actual field appraisals of sampled roll items. The way in which the office research and the sampling process is carried out was developed after consultation with the county assessors by the staff of the BOE's Property Taxes Department.

This survey was conducted according to the method mandated by Government Code section 15642. Following legislative direction, our survey primarily emphasizes issues that involve revenue generation or statutory mandate. This report is the culmination of a review of the Tuolumne County Assessor's operation that consisted of the CPTD's office research that examined current practices and procedures in key areas to see whether significant problems exist in the assessor's operation. Finally, the survey report offers positive courses of action, presented here as recommendations and suggestions, to help the assessor resolve problems identified in the program. The recommendations and suggestions contained in this report are based on our analysis of data which indicates that statutory violations, under or over assessments, or unacceptable appraisal practices may be occurring in specific areas.

Revenue and Taxation Code section 75.60 requires that the BOE certify a county as eligible for the recovery of costs associated with administering supplemental assessments. In order for a county to qualify as an eligible county, it must achieve an average assessment level that is not less than 95 percent of the amount required by law as determined by the BOE through its assessment-sampling program. In addition, for sampling for the 1996-97 fiscal year and subsequent fiscal years, the sum of the absolute values of the differences cannot exceed 7.5 percent of the legally required amount.

Based upon our assessment sampling for the 1993-94 assessment roll, the BOE certified Tuolumne County as an eligible county. This indicates that its assessment program is in substantial compliance with the law as of that sampling. Section 75.60 requires that certification remain in effect until the next sampling.

Counties in which a survey has been conducted without sampling are subject to sampling if the BOE believes significant assessment problems as defined in BOE Rule 371 exist. The survey found no indication that significant assessment problems exist in Tuolumne County. Accordingly, Tuolumne County remains eligible to recover administrative costs as specified in section 75.60.

## **OVERVIEW OF THE TUOLUMNE COUNTY ASSESSMENT ROLL**

The following information is extracted from the State Board of Equalization's *Annual Reports to the Governor* and from the BOE's *A Report on Budgets and Workloads, and Assessment Appeals Activities in California Assessors' Offices 1997-98*, dated June 1999. Budget dollars and assessed values have been rounded for this survey report. Our review of the assessor's operations related to the assessment roll for 1997-98. Tuolumne County's 1997-98 assessment roll consisted of the indicated property types and assessed values:

Property Type	Number of Assessments	Total Assessed Value
Residential	30,148	\$2,021,087,000
Rural <sup>(1)</sup>	4,004	662,781,000
Commercial-Industrial	1,200	475,800,000
All Other	2,111	113,147,000
Total Secured Roll	37,463	3,272,815,000
Unsecured Assessments	3,668	114,166,000
Total	41,131	3,386,981,000

<sup>(1)</sup>includes rural homes

Since our last survey in 1992, the number of assessments increased only 1.5 percent. However, total assessed value increased by more than \$827 million, or 32 percent; the average assessed value of each roll unit increased 30 percent. Despite the increased workload, the assessor has managed to fulfill his mandatory obligations with fewer staff than he had six years ago.

<u>Roll Year</u>	<u>Number of Assessments</u>	<u>Assessed Values</u>
1991-92	40,524	\$2,559,828,000
1997-98	41,131	\$3,386,981,000

#### **BUDGET HISTORY**

<b>1992-93 Budget</b>	<b>1993-94 Budget</b>	<b>1994-95 Budget</b>	<b>1995-96 Budget</b>	<b>1996-97 Budget</b>
\$860,000	\$822,000	\$865,000	\$797,000	\$725,000

#### **BUDGETED PERMANENT POSITIONS**

<b>1992-93 Budget</b>	<b>1993-94 Budget</b>	<b>1994-95 Budget</b>	<b>1995-96 Budget</b>	<b>1996-97 Budget</b>
15	14	11	12	12

#### **SECURED AND UNSECURED ROLL UNITS AND NET ROLL VALUES**

<b>Total Roll Units For 1997-98</b>	<b>Total Secured Roll Units</b>	<b>Total Unsecured Roll Units</b>	<b>Total Net Roll Value</b>
41,131	37,463	3,668	\$3,386,981,000

#### **BUDGET PER ROLL UNIT**

<b>Gross Budget For 1997-98</b>	<b>Budget per Roll Unit</b>	<b>Roll Value Per Budget Dollar</b>
\$592,604	\$14.41	\$4,829

## **FINDINGS**

The real property and personal property assessment programs are benefiting from the use of a Crest Property Tax computer system installed during the 1987-88 fiscal year. Since that time, the system has relieved the assessor's staff of many hours of manually calculating taxable values for many types of properties.

In our prior survey report, we made eight recommendations and eight suggestions to improve the real and personal property assessment programs. The assessor has implemented most of those recommendations and suggestions. However, three of those recommendations were not implemented and are repeated in this report. Several suggestions from the prior survey have been upgraded to recommendations.

Two recommendations to improve the real property program are repeated from our prior survey; they involve changes in ownership and possessory interest assessments. We still believe the



assessor should apply the penalty for non-response by taxpayers to the Change in Ownership Statement (COS). Also, possessory interests at the fairgrounds should be assessed, unless the board of supervisors enacts a resolution exempting them; and possessory interests for houseboats on a public lake should be assessed separately from the assessment on the houseboat.

The assessment program could be further improved by (1) ensuring that documentation in the assessment files supports reductions in taxable values below factored base year value, and (2) by requesting that the board of supervisors revise the county's low-value exemption resolution to conform to the Revenue and Taxation Code section 155.20 requirement that the level of exemption be applied uniformly to real and personal property.

Our prior survey included several suggestions for reducing the staff time used for processing property statements and reducing the number of records used. These suggestions have not been implemented; we are upgrading these suggestions to a recommendation, as well as making other recommendations to improve the personal property assessment program.

## **RECOMMENDATIONS AND SUGGESTIONS**

This report contains both recommendations and suggestions for improvements to the operation of the Tuolumne County Assessor's Office. Government Code section 15645 requires the assessor to respond in writing to the formal recommendations contained in this report.<sup>1</sup> Our recommendations are reserved for situations where one or more of the following conditions exists:

- Existing practices do not conform to state constitutional provisions, statutes, BOE regulations, or case law.
- Existing assessment practices result in the generation of an improper assessment.
- Existing appraisal practices do not conform to Board-adopted appraisal methodologies.

Our suggestions are considered less formal than recommendations, and the assessor is not required to make any response to suggestions. Typically, suggestions are BOE staff opinions on ways the assessor can improve efficiency, product quality, or other matters that do not call for formal recommendations.

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<sup>1</sup> Government Code section 15645 provides, in relevant part: "...Within a year after receiving a copy of the final survey report and annually thereafter, no later than the date on which the initial report was issued by the Board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate."

The following is a summary of the formal recommendations and suggestions contained in this report, arrayed in the order that they appear in the text. The page is noted where each recommendation or suggestion and its supporting text may be found.

***Recommendations:***

- RECOMMENDATION 1:*** *Prior to recommending a large reduction in assessed value, audit a taxpayer that appeals the assessment of business property.* \_\_\_\_ 8
- RECOMMENDATION 2:*** *Impose the penalty for non-response to the Change in Ownership Statement (COS).* \_\_\_\_\_ 12
- RECOMMENDATION 3:*** *Request that the board of supervisors conform their authorization for cancellation of low value supplemental assessments to the requirements of Revenue and Taxation Code section 75.55(b).* \_\_\_\_\_ 16
- RECOMMENDATION 4:*** *Improve the possessory interest assessment program by (1) assessing all PI's at the fairgrounds, (2) separately assessing PI's of houseboat owners, (3) conforming PI base year value determinations to Revenue and Taxation Code section 61(b)(2), and (4) using prescribed form BOE 502-P.* \_\_\_\_\_ 19
- RECOMMENDATION 5:*** *Improve assessment procedures for TPZ land by discovering compatible, nonexclusive uses of TPZ land by periodically sending a questionnaire requesting such information to land owners.* \_\_\_\_\_ 22
- RECOMMENDATION 6:*** *Conform mineral property assessments to the requirements of BOE Rule 469(e).* \_\_\_\_\_ 23
- RECOMMENDATION 7:*** *Improve the mandatory audit program by (1) completing all mandatory audits timely and (2) obtaining waivers of the statute of limitations when audits will not be completed timely.* \_\_\_\_ 24
- RECOMMENDATION 8:*** *Do not accept property statements that fail to comply with statutory requirements.* \_\_\_\_\_ 26
- RECOMMENDATION 9:*** *Improve the vessel assessment program by (1) applying late filing penalties only when using BOE prescribed forms and (2) requiring certain vessel owners to file annual vessel property statements.* \_\_\_\_\_ 30
- RECOMMENDATION 10:*** *Improve aircraft assessments by (1) conducting periodic field inspections and (2) requiring proof of the number of public display days before granting the historical aircraft exemption.* 32
- RECOMMENDATION 11:*** *Assess manufactured homes as personal property on the secured assessment roll.* \_\_\_\_\_ 33

*Suggestions:*

<i>SUGGESTION 1:</i>	<i>Develop a policy and procedures manual for assessment functions. _____</i>	<i>7</i>
<i>SUGGESTION 2:</i>	<i>Obtain fire reports from all fire protection agencies. _____</i>	<i>10</i>
<i>SUGGESTION 3:</i>	<i>Request that the Tuolumne County Building Department provide a sequential list of building permits. _____</i>	<i>14</i>
<i>SUGGESTION 4:</i>	<i>Include supporting documentation for market values. _____</i>	<i>15</i>
<i>SUGGESTION 5:</i>	<i>Annually review water company CPUC reports. _____</i>	<i>21</i>
<i>SUGGESTION 6:</i>	<i>Develop a non-mandatory audit program. _____</i>	<i>25</i>
<i>SUGGESTION 7:</i>	<i>Prepare a four-year history of taxpayers that fail to file business property statements. _____</i>	<i>26</i>
<i>SUGGESTION 8:</i>	<i>Simplify the processing of business property statements by discontinuing the use of the “business property appraisal record.” _____</i>	<i>27</i>
<i>SUGGESTION 9:</i>	<i>Obtain computer access to the DMV’s vessel database. _____</i>	<i>31</i>

# ADMINISTRATION

## PROCEDURES MANUAL

A comprehensive policy and procedures manual is essential for communicating the assessor's policies, standards, and procedures for the preparation of assessments to the staff. This manual, also known as an operations manual, will provide the assessor's staff with written directives necessary to perform their duties in an adequate manner. A current manual can help ensure that the assessor's office work is consistent with approved policies and practices. A written procedure manual will address issues that are not common, yet must to be dealt with as part of the assessment program. A well-written procedures manual promotes uniformity, clarity, continuity, and equal treatment for all taxpayers. Such a manual makes it easier to train newly hired employees and to cross-train current employees.

***SUGGESTION 1: Develop a policy and procedures manual for assessment functions.***

The assessor has no operational procedures manual. Any assessor's office should have a manual that furnishes concepts and objectives, as well as detailed instructions for preparing assessments for the different property types and conducting audits. We suggest that the assessor develop a policy and procedures manual pertaining to assessment operations.

## ROLL CORRECTIONS

Revenue and Taxation Code section 531 requires that if any property belonging on the local roll has escaped assessment, the assessor shall assess the property on discovery, at its value on the lien date, for the year for which it escaped assessment. Upon discovery of property escaping assessment, the assessor must immediately add the escape assessment and any applicable penalty to the assessment roll prepared or being prepared in the current assessment year.

Revenue and Taxation Code sections 531, 531.1, 531.2, 531.3, 531.4, and 531.5 require the penalty and interest described in Revenue and Taxation Code sections 504 and 506 when the escape assessment is caused by the described circumstances. Generally, interest must be added to any escape that was caused by the taxpayer's failure to report accurately and completely. Escapes and any penal assessments are combined and the applicable tax rate is applied to the sum, resulting in the tax. Revenue and Taxation Code section 506 requires that interest be added to this computed amount of tax at the rate of three-fourths of 1 percent per month, from the date or dates the taxes would have become delinquent, if they had been timely assessed, to the date the additional assessment is added to the assessment roll.

When an escape assessment is enrolled, the county auditor is notified via the auditor's copy of the *Notice of Escape Assessment* sent to the taxpayer. The notice contains a reference to the Revenue and Taxation Code section authorizing the escape assessment. The auditor is responsible for determining the amount of interest (if any) that should be added to the tax bill.

We believe the assessor's procedures for roll corrections fulfill his obligations for the clerical processing of roll corrections.

## **ASSESSMENT APPEALS**

The assessment appeals function is described by article XIII, section 16, of the California Constitution, which provides that the Legislature shall determine the manner and procedure of assessment appeals. Revenue & Taxation Code sections 1601 through 1641.1 are the statutory provisions that regulate county boards of supervisors in the appeals function. Government Code section 15606(c) directs the Board of Equalization (BOE) to prescribe rules and regulations to govern local boards of equalization; the BOE has adopted Property Tax Rules 301 through 326 to regulate assessment appeals.

We conducted a review of the assessment appeals functions of the assessor's office. In Tuolumne County, the assessor and his staff have kept the appeals to a minimum by fully explaining the basis for taxable values to prospective appellants and reducing taxable values when such reductions are warranted. However, we do have a recommendation that, if implemented, should ensure that only appropriate assessment reductions are made.

***RECOMMENDATION 1: Prior to recommending a large reduction in assessed value, audit a taxpayer that appeals the assessment of business property.***

The assessor should conduct audits before major reductions in taxable value are recommended during an assessment appeal. Cost, income, and expense data all need to be verified so that the appeals board has all the facts before a value decision is made.

A major corporation was granted multi-million assessed value reductions for two assessment years. These reductions were made without the benefit of an audit. This company, which became a mandatory audit in 1989, has never been audited. Good assessment practices require that an audit be conducted before a large reduction in taxable value is granted. We recommend that these types of accounts be audited before the assessor stipulates to a value reduction, or makes a recommendation to an appeals board for a reduction in taxable value.

In Tuolumne County, the assessor and the assessment appeals board maintain a good working relationship in order to make the appeals process efficient, particularly in the areas of case scheduling and document processing. We attended one assessment appeal hearing during which the assessor's staff appeared to be well prepared, and their presentation of the case was very professional.

## **LOW-VALUE PROPERTY EXEMPTION RESOLUTION**

Revenue and Taxation Code Section 155.20 authorizes a county board of supervisors to enact a resolution exempting all real property with a base year value and personal property with a full

value so low that, if not exempt, the total amount collected in taxes, special assessments, and any applicable subventions is less than the cost of collection. The exemption threshold may not exceed \$5,000. For certain possessory interests in publicly owned fairgrounds, convention centers, or cultural facilities, the limitation is increased to \$50,000.

The Tuolumne County Board of Supervisors adopted a low-value property exemption resolution No. 28-93, dated March 2, 1993. This resolution authorizes the county assessor to exempt any property with a full value of \$2,000 or less from the *unsecured* assessment roll for each fiscal year thereafter until rescinded.

Section 155.20 requires that the exemption be applied uniformly to the different classes of property that meet the exemption threshold. While this low-value property exemption resolution applies only to property assessed on the unsecured roll, we found numerous assessments with a taxable value less than \$2,000 on the secured assessment roll. The meaning of “class of property” is uncertain in assessment law, however, a common dictionary definition is “things grouped together because of a certain likeness or common traits”.

This statute has been amended since the board of supervisors adopted the resolution exempting low value property. We believe the assessor should review the resolution with the county counsel for compliance with the statute.

## **DISASTER RELIEF**

Revenue and Taxation Code section 170 provides that the county board of supervisors may adopt an ordinance authorizing property tax relief for the owner of any taxable property whose property suffers damage exceeding \$5,000, without fault of the owner, in a misfortune or calamity. The section prescribes procedures for calculating value reductions, applying for relief, enrolling the value of the repaired or restored property, and other considerations.

The Tuolumne County Board of Supervisors passed ordinances 3.36.010 and 3.36.020, granting the assessor the authority to provide tax relief on properties damaged by misfortune or calamity. Ordinance 3.36.010 covers the application for reassessment; Ordinance 3.36.020 deals with processing the application.

Our 1993 survey suggested the assessor revise the application form for disaster relief by asking for the date of the damage. We also suggested revising the worksheet, used by appraisers for calculating the amount of relief, to include the proper time frame for the next year’s assessment. We now find that the relief application requests the date of the damage and the worksheet is no longer used.

The assessor’s office processes between 20 and 30 applications for disaster relief each year. The assessor’s discovery technique includes building permits for demolishing or repairing property, newspaper articles, and inquiries from taxpayers. While we are not critical of the assessor’s

discovery methods, we believe the following suggestion may aid in the discovery of fire-damaged property in Tuolumne County.

***SUGGESTION 2: Obtain fire reports from all fire protection agencies.***

There are 16 fire departments in Tuolumne County; some are volunteer and quite small. While they have not always had proper reporting procedures, they are required to report structure fires to the state fire marshal. The assessor does not receive copies of these fire reports. We suggest the assessor obtain copies of all fire reports.

# REAL PROPERTY VALUATION AND ASSESSMENT

## BASE YEAR VALUES

Article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value, factored at no more than 2 percent per year for inflation, unless there is a change in ownership or new construction. The 1975 full cash value and subsequent values that result from a change in ownership or new construction are known as base year values.

### Change in Ownership

Revenue and Taxation Code section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest. Revenue and Taxation Code sections 61 through 69.5 further clarify what is considered a change in ownership for property tax purposes.

The following table is a five-year history for Tuolumne County of the number of recorded documents, number of deeds recorded, and the number of deeds that resulted in the assessor establishing a new base year for the transferred property.

	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>
<b>Recorded Deeds</b>	4,435	4,371	3,536	3,851	3,987
<b>Deeds Resulting in a New Base Year</b>	1,818	1,833	1,796	1,546	1,586

In Tuolumne County, these properties with a new base year represent, on an annual basis, a change in ownership for property tax purposes for approximately 4.5 percent of the assessments on the secured roll. Given that the counties that neighbor Tuolumne have similar economies, there is no reason to expect significant differences in the real property market. For the 1996-97 assessment year the equivalent ratio for four neighboring mountain counties averaged approximately 4.4 percent. However, the equivalent ratio on a statewide basis is approximately 8 percent.

For the five-year period, 42 percent of recorded deeds in Tuolumne County resulted in a new base year for the conveyed property. Statewide, the vast majority of “deeds” (documents such as grant deeds, quitclaim deeds, etc.) represents changes in ownership for property tax purposes. In some counties, in excess of 90 percent of deeds represent changes in ownership. Tuolumne County’s 42 percent ratio seems low; however, the 42 percent ratio is consistent over the five-year period. In our brief review, we were not able to ascertain the reason for such a low ratio of deeds that resulted in a new base year.



Our staff reviewed the processing of recorded deeds, tracking of change of ownership statements, etc. While the program for *processing* deeds is works well, we do have a recommendation for improving this activity.

Revenue and Taxation Code sections 480 et seq. impose requirements for reporting change in ownership events to the assessor. Revenue and Taxation Code section 482 imposes a penalty for failure to timely report a change in ownership.

***RECOMMENDATION 2:     Impose the penalty for non-response to the Change in Ownership Statement (COS).***

Occasionally, a deed representing a change in ownership is not accompanied by a Preliminary Change of Ownership Report (PCOR). When a PCOR is not filed with the recorded deed, the assessor's practice is to mail a Change in Ownership Statement (COS) to the new owner. If the initial COS is not returned within 30 days, a second COS is mailed. If this second COS is not received within two weeks, the assessor mails a final COS with a notice informing the taxpayer that the noncompliance penalty will be applied if a response is not received in 10 days. This timeline allows the taxpayer a minimum of 54 days to return a COS without penalty.

Revenue and Taxation Code section 482 provides that, if a person fails to file a COS within 45 days after a written request by the assessor, the assessor shall add a penalty to the assessment. By not applying the penalty in a timely manner, the assessor is, in effect, extending the filing period without legal authorization. We recommend that the assessor apply the penalty promptly upon expiration of the 45-day period.

**LEGAL ENTITY OWNERSHIP PROGRAM (LEOP)**

The LEOP section of the BOE's Policy, Planning, and Standards Division transmits a report to each county identifying the property of legal entities that have reported a change in control. Each of the listed change in control transactions is investigated and verified by the LEOP section. The report includes the names of the acquiring entities, the date stocks or partnership interests transferred, the parcels involved, and whether the property was owned or leased on the transfer dates.

Many of the acquiring entities are unable to provide detailed information pertaining to the name of the county in which the property is located, the assessor's parcel number, or how many parcels are owned by the entity. Due to the questionable accuracy of the data provided by the entities, LEOP has advised assessors to thoroughly research each named entity's holdings to determine that all affected parcels in their counties are identified and properly assessed

We randomly checked assessment records of some properties listed in LEOP reports transmitted to the assessor's office, believed to have changed ownership during the time period January 1, 1982, to February 1, 1998. For this time period, the LEOP unit informed the

assessor's office of 38 companies and 81 parcels that required investigation for possible change in control. We found that the assessor had taken proper action on the properties we reviewed.

## **New Construction**

Revenue and Taxation Code section 70 defines "newly constructed" as any addition to real property, whether land or improvements (including fixtures), since the last lien date and any alteration of land or any improvement (including fixtures) since the lien date which constitutes a major rehabilitation thereof, or which converts the property to a different use. When real property undergoes new construction, section 71 requires the assessor to determine the added value of those improvements upon completion. This value is established as the base year value for those specific improvements and is added to the property's existing base year value. When new construction replaces existing improvements, the value attributable to those existing improvements is deducted from the property's base year.

## **BUILDING PERMITS**

Building permits are the main source the assessor uses to discover new construction. The County of Tuolumne and the City of Sonora are the two permit-issuing agencies in Tuolumne County. The assessor receives copies of newly issued permits from the two agencies each month, as well as lists of permits with final inspections completed. The permits are reviewed for assessable new construction. The determination of the existence of assessable new construction is based on the stated cost of the construction or description of the construction. Those permits considered to be for assessable new construction are then entered into a spreadsheet that becomes the basis for assignments to the appraisal staff. The spreadsheet is printed monthly and is the control for reappraisals by the real property staff.

The collection, screening, sorting, and tracking of permits is a high priority in the assessor's office. The appraisal records we reviewed were well documented.

The following statistical history of new construction in Tuolumne County over the past four years shows the total number of permits received, new assessments resulting from those permits, and the new construction value added.

<b><u>New Construction</u></b>	<b><u>1996-97</u></b>	<b><u>1995-96</u></b>	<b><u>1994-95</u></b>	<b><u>1993-94</u></b>
Total Permits Received	1,892	1,953	1,607	1,776
New Assessments from Permits	864	943	1,131	1,369
New Construction Value Added	\$42,072,746	\$44,074,984	\$65,565,948	\$76,820,513

As demonstrated by the table, many permits do not result in new assessments. (Less than 50 percent of the 1995-96 and 1996-97 permits resulted in new assessments.) Permits for construction that do not result in a new assessment include items considered to be repair and maintenance activities.<sup>2</sup> Information furnished us by the assessor's office shows the number of new construction appraisal units per appraiser decreased to 54 percent from their level ten years ago.

We found no list provided to the assessor by the building department of all issued permits, in sequential order. In fact, the only list received by the assessor's office is based on the final dates of new construction. Because there is no control list, the assessor never knows if he has received copies of all issued permits.

***SUGGESTION 3: Request that the Tuolumne County Building Department provide a sequential list of building permits.***

The County of Tuolumne Building Department issues approximately 85 to 90 percent of all building permits. Tuolumne County is in the process of adopting a new computer networking system for most of its agencies. With the new computer system, the county building department will be able to furnish the assessor a complete list of permits, issued in numeric order or in any array the assessor's office chooses. We suggest the assessor's office request the building department provide a sequential list of permits issued in order to ensure that the assessor has received notice of all issued permits.

### **HISTORICAL COSTS**

The assessor's office primarily uses contract costs to value residential new construction. If contract data is not available or unreliable, cost estimating manuals such as Marshall Valuation Service or Assessors' Handbook Section 531 are used. We compared costs used by the assessor to BOE cost manuals, and found the differences to be minimal.

### **SELF REPORTED NEW CONSTRUCTION**

The assessor's self-reporting system for new construction is used mainly to gather cost data for those projects where an appraiser did not have time to visit the construction site. Approximately two dozen self-reporting statements for new construction events are sent to taxpayers each year. The majority of them are returned with the requested data.

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<sup>2</sup> See Property Tax Rule 463 (4).

## DECLINES IN VALUE

Revenue and Taxation Code section 51(b) requires that real property, subject to article XIII A, be annually assessed at the lower of the base year value (adjusted annually for inflation) or the current market value, as defined in Revenue and Taxation Code section 110. If the taxable value is less than the factored base year value, section 51(e) requires an annual review until the current market value again exceeds the factored base year value.

Due to economic conditions during the past few years, property values in many areas of California have declined or stagnated. As a result, many county assessors were forced to make record numbers of reductions in taxable values. Tuolumne County has been no exception. The following table shows the reductions in taxable value processed by the assessor's office over the past three years. Since manufactured homes make up the majority of the assessments with this condition in Tuolumne County, they are shown separately.

### Assessments with Taxable Value Less Than FBYV

<u>Year</u>	<u>Total</u>	<u>Manufactured Homes</u>	<u>Other Than Manufactured Homes</u>
1997-98	2,521	1,890	631
1996-97	2,635	1,870	765
1995-96	2,367	1,846	521

### ***SUGGESTION 4: Include supporting documentation for market values.***

We reviewed several reduction-type assessment records and found they lacked documentation supporting the market values. Adequate documentation to support market value estimates were included for the year the property first received the reduction in taxable value. However, there was a lack of supporting documentation for subsequent years' reductions.

We could not determine whether or not these properties were reappraised every year, as required by the statute. Due to the limited scope of our review of the assessor's operations, we were not able to determine whether or not erroneous assessments occurred. Such a determination would have required an amount of appraisal activity that our resources did not allow.

Proper documentation, such as notes in the remarks section of the building record or a listing of timely sales of comparable properties, should be included in the file. The lack of such data hinders appraisal review and makes justification of the assessment difficult. We suggest the assessor ensure that proper documentation is included in the assessment files.

## SUPPLEMENTAL ASSESSMENTS

Revenue and Taxation Code section 75, et seq., requires that whenever a change in ownership occurs or new construction resulting from actual physical new construction on the site is completed, the assessor shall appraise the property changing ownership or the new construction at its full cash value on the date the change in ownership occurs or the new construction is completed. The value so determined shall be the new base year value of the property. Our review of the assessor's supplemental assessment roll practices found no problems except with his practice of exempting certain low value supplemental assessments.

The following is a four-year history of the supplemental assessments processed by the Tuolumne County Assessor's Office.

<u>Year</u>	<u>1996-97</u>	<u>1995-96</u>	<u>1994-95</u>	<u>1993-94</u>
Number of Supplemental Assessments	1,589	1,707	2,560	2,407
Tax Billed	\$416,266	\$481,836	\$645,802	\$679,766

Revenue and Taxation Code section 75.55(b) allows a board of supervisors to enact an *ordinance* authorizing the assessor to cancel small supplemental assessments. The maximum amount allowed to be cancelled is the equivalent of \$20 in tax for real property and \$50 in tax for manufactured home accessories.

***RECOMMENDATION 3: Request that the board of supervisors conform their authorization for cancellation of low value supplemental assessments to the requirements of Revenue and Taxation Code section 75.55(b).***

In our previous survey, we suggested that the assessor's office request that the board of supervisors adopt an *ordinance* authorizing the cancellation of small supplemental assessments. The board of supervisors adopted Resolution 27-93, on March 2, 1993. The *resolution* authorizes the assessor to cancel any supplemental assessment where that assessment would result in an amount of tax less than \$20.

The present board of supervisors' authorization to cancel assessments does not conform to the requirements of the statute because it is not an "ordinance." We recommend that the assessor request the board of supervisors ensure their instructions to the assessor conform to the statute.

## SPECIAL PROPERTY VALUATION AND ASSESSMENT

### California Land Conservation Act Property (CLCA)

An agricultural preserve is established between a land owner and the city or the county, pursuant to the Government Code section 51200, et seq. Lands under contract are assessed on the basis of agricultural income-producing ability, including any compatible use income (e.g., hunting, communication facilities), and are assessed at the lowest of this restricted value, the current market value, or the factored base year value, as defined in article XIII A of the California Constitution. Revenue and Taxation Code sections 422 through 430.5 deal explicitly with the assessed valuation of lands subject to agricultural preserve contracts.

Tuolumne County's total assessed value for the 1997-98 fiscal year was \$3,253,866,317. CLCA property with a 1997-98 total assessed value of \$59,000,499 accounted for only 1.8 percent of the total assessment roll. Because of this low ratio, the annual revaluing of CLCA lands is not a major priority for the assessor's office. The following chart shows a five-year assessed value history for CLCA property in Tuolumne County.

<u>Year</u>	<u>Parcels</u>	<u>Acres</u>	<u>Taxable Values of Land</u>	<u>Taxable Values of Improvements</u>	<u>Taxable Values of Total</u>
1997-98	897	123,202	\$30,002,753	\$28,997,746	\$59,000,499
1996-97	922	124,611	30,061,134	28,122,093	58,183,227
1995-96	908	124,748	29,802,349	30,218,185	60,020,534
1994-95	897	125,157	30,731,251	30,580,614	61,311,865
1993-94	900	125,603	27,534,030	27,811,626	55,345,656

The amount of land scheduled to come out of the CLCA contract restriction continues to grow in the near term, but declines in the years following 2000. The following table shows the amount of land currently in a non-renewal status and the year of contract expiration.

<u>Year of Contract Termination</u>	<u>Percent of 1997-98 Acreage Under CLCA Contract</u>	<u>Acreage</u>
1997	1.07%	1,322.55
1998	2.47%	3,046.82
1999	0.50%	648.95
2000	0.84%	1,036.62
2001	0.52%	637.09
2002	0.56%	694.86
2003	0.13%	160.00
2004	0.19%	239.16
<b>Totals</b>	<b>6.32%</b>	<b>7,786.06</b>

CLCA assessments must be reviewed each year. Not only must restricted values be adjusted to reflect changes in capitalization rates and incomes, but a comparison must be made between the property's restricted CLCA value, current market value, and factored base year value to determine the proper taxable value.

Currently, the assessor is not comparing factored base year value, current market value, and CLCA restricted value to determine the taxable value of property subject to a CLCA contract. The CLCA restricted value is routinely used as taxable value. In Tuolumne County, the total (land and improvements) taxable value of property subject to a CLCA contract averages less than \$500 per acre. While it is unlikely, in this county, that factored base year value or market value would ever be less than the CLCA restricted value, the assessor should develop a procedure to make such a comparison.

Dry grazing makes up about 90 percent of all CLCA property in Tuolumne County. In our last survey we suggested the assessor use the animal unit month (AUM) as a unit of comparison for valuing grazing lands. The assessor now has information gleaned from questionnaires regarding carrying capacity and economic rents for valuation of dry grazing lands. We found that the assessor now uses AUM's as a unit of comparison for valuation of grazing land.

### **Taxable Government-Owned Property**

Article XIII, section 3 of the California Constitution exempts from taxation any property owned by local government. However, article XIII, section 11 provides that land and improvements located outside the agency's boundaries may be taxed if the property was subject to taxation at the time of acquisition by the government agency.

The provisions of article XIII A of the California Constitution were not applied to taxable government-owned property until the California Supreme Court decided, in 1995, that such property was subject to the provisions.<sup>3</sup> Because of this decision, the assessed value for taxable government owned land is the lowest of (1) the 1967 assessed value times the appropriate section 11 factor, (2) the current fair market value, or (3) the article XIII A factored base year value.

Taxable government-owned improvements should be assessed at the lowest of (1) market value, (2) factored base year value, or (3) the highest full value ever used for taxation of the improvements. Improvements constructed after the land acquisition by a government agency are exempt from taxation. However, if the government agency replaces improvements previously taxed, the newly constructed improvements are taxable.

The California Supreme Court decision, that the provisions of article XIII A of the California Constitution apply to taxable government-owned property, has had a significant negative fiscal impact on Tuolumne County. The total assessed value for taxable government-owned properties, for the 1995-96 roll year, was approximately \$100 million. For the 1997-98 roll year, the assessed value is approximately \$36 million. Coincidentally, the City and County of San

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<sup>3</sup> Assessor's Letter No. 95/48, dated September 1, 1995.

Francisco, the winning plaintiff in the case decided by the California Supreme Court, is also the largest owner of taxable government-owned property in Tuolumne County. The large reduction in assessed value is attributable to the City and County of San Francisco's Hetch-Hetchy water project.

Our review of taxable government owned properties in Tuolumne County determined that these properties are being properly assessed.

## **Possessory Interests**

A taxable possessory interest (PI) exists whenever a private person has the exclusive right to the beneficial use of government-owned real property. For 1997-98, possessory interests assessed in Tuolumne County consist of the following property types:

<u>Type</u>	<u>Number of Possessory Interests by Type</u>	<u>Assessed Value</u>
USFS Cabins	660	\$19,279,848
Commercial	37	13,161,527
Rafting	9	285,300
Campgrounds	15	3,980,690
Aircraft Storage	89	1,464,101
Government Housing	155	2,351,203
Grazing	35	440,657
Mining Claims	139	534,584
Miscellaneous	<u>6</u>	<u>1,946,593</u>
<b>Total</b>	<b>1,145</b>	<b>\$43,444,503</b>

Our previous survey included a five-part recommendation to improve PI assessments. We recommended that the assessor (1) establish a new base year value when a PI has a change in ownership, (2) issue supplemental assessments when PI's change ownership, (3) include the present worth of future contract rents in PI value, (4) assess the possessory interest of a houseboat owner separately from the assessment of the houseboat, and (5) assess all PI's at the county fairgrounds.

The assessor implemented only three parts of the our recommendation. These were to (1) establish a new base year value for changes in ownership, (2) issue supplemental assessments, and (3) include the present worth of future contract rent in PI value. Therefore, we repeat two of the items and add we add two additional items to the recommendation.

**RECOMMENDATION 4:** *Improve the possessory interest assessment program by (1) assessing all PI's at the fairgrounds, (2) separately assessing PI's of houseboat owners, (3) conforming PI base year value determinations to Revenue and Taxation Code section 61(b)(2), and (4) using prescribed form BOE 502-P.*



### **FAIRGROUNDS PI'S**

Again we found that not all fairgrounds PI's are assessed. There are only two fairgrounds PI assessments out of a total of 13 annual events, whose uses demonstrate sufficient durability, private benefit, exclusivity, and independence to qualify as a taxable possessory interest. Since the county board of supervisors has not authorized the fairgrounds PI exemption described in Revenue & Taxation Code section 155.20, assessment of these PI's is required. We recommend assessing all taxable possessory interests at the fairgrounds.

### **HOUSEBOAT PI'S**

In our previous survey we discovered permits issued to houseboat owners at a publicly owned reservoir in Tuolumne County of a type that create taxable PI's. The permits usually change ownership when the houseboat sells. We discovered that the assessor was incorrectly combining the value of the boat and the value of the permit into a single personal property assessment for the houseboat. This practice has not changed since our last survey.

Various statutes and BOE Rules require that real property and personal property be subject to varying assessment procedures. A possessory interest (the houseboat's permit to use the lake) is real property, so its assessment is subject to the restrictions of article XIII A of the California Constitution and the change in ownership criteria expressed in Revenue and Taxation Code section 61(b)(2). The houseboat is personal property and its assessed value is not subject to the restrictions of article XIII A.

The correct procedure would for a houseboat to be assessed as personal property and the permit to be assessed as a PI in real property. We recommend the assessor separately assess the PI's created by a permit as real property and assess the houseboat as personal property.

### **CHANGE IN OWNERSHIP**

We found that the PI's for aircraft hangers at two county airports are revalued whenever there is a change in rental amounts. This practice is in conflict with Revenue and Taxation Code section 61(b)(2), which allows a new base year value to be created only at the end of the reasonably anticipated term of possession used by the assessor to value the PI. We recommend that the assessor conform the determinations of new base year value for PI's to the statute.

### **FORM BOE-502-P**

Revenue and Taxation Code section 480.6 requires that state and local government agencies annually report possessory interest information to the assessor on a property usage report. This report is in lieu of individual filing of change in ownership statements or preliminary change of ownership reports. Section 480.6 describes the information that must be included on the property usage report. In order to fulfill the need for uniformity in reporting, the Board prescribed Form BOE-502-P, containing inquiries as to the information described in section 480.6.

Currently the assessor's office receives information regarding PI properties in a variety of formats. The agency that supplies the information determines the format. In order to provide for

uniformity and ease of understanding, we recommend the assessor require that state and local agencies use the BOE prescribed form.

### **Water Company Property**

Water service providers consist of government-owned systems or privately owned water companies. The California Public Utilities Commission (CPUC) may regulate the privately owned systems. The privately owned systems may be operated for profit or may be mutual water associations. The mutual associations are owned by the customers and provide water at cost to the customer. Each type presents different appraisal problems.

The California Constitution article XIII, section 3(b) exempts from taxation property owned by a local government within its boundaries. This includes property owned by government water supply agencies. When the water system property is located outside of the government agency's boundaries, this exemption does not apply. In those instances, article XIII, section 11 provides that publicly owned water system property located outside its boundaries is taxable if it was taxable at the time it was acquired by the agency. We found that property owned by government water systems is correctly assessed.

Privately owned water companies that are operated for profit may be regulated by the CPUC. Real property owned by these water companies is subject to the valuation limits expressed in article XIII A of the California Constitution. If a company's net income is regulated by the CPUC and is a function of historical cost less depreciation, the property's factored base year value may exceed fair market value.

We reviewed seven privately owned water companies in the county and found that they are being correctly assessed, using methods recommended in our last survey. We commend the assessor for implementing our previous recommendations. However, the following suggestion could improve the water company assessments.

#### ***SUGGESTION 5: Annually review water company CPUC reports.***

Seven privately owned water companies in Tuolumne County are subject to CPUC regulation. The assessor annually sends BOE form 540-S (Water Company Property Statement) to these companies. Typically, two of the seven companies return the form. When there is no response to the demand for a property statement, a 10 percent penalty is added to the existing assessment. The companies that do not respond to the request for information have been paying the 10 percent penalty without complaint (no appeals have been filed).

However, unless these companies file a property statement, or are audited, there is no way of knowing whether the assessment is proper. In lieu of an audit or information from returned property statements, the assessor can use the water companies' annual report to the CPUC to

obtain information used in valuing these companies. We suggest the assessor request copies of these annual reports from the CPUC.

### **Timberland Production Zone Property**

Land that has been zoned Timberland Production Zone (TPZ) is subject to assessment in accordance with the special TPZ site classifications that exclude the value of any standing timber. Revenue and Taxation Code section 434.5(a) requires assessors to value TPZ land according to site values determined annually by the BOE.

Approximately 80 percent of the timberland in Tuolumne County consists of Site Classes II and III, Pine-Mixed Conifer Region. The remaining 20 percent is divided between Site Classes I and IV with a remnant in Site Class V, Pine-Mixed Conifer Region. We found that these site values are used in an appropriate manner to assess TPZ land.

Improvements on TPZ land are required to be assessed in the same manner as other improvements. Our review of the TPZ appraisal records indicated that improvements on these lands are accurately recorded with proper assessments.

The following chart shows a five-year history of TPZ property located in Tuolumne County:

<u>Year</u>	<u>Parcels</u>	<u>Acres</u>	<u>Assessed Values</u>		<u>Total</u>
			<u>Land</u>	<u>Improvements</u>	
1997-98	374	84,076	\$9,778,559	\$1,240,101	\$11,018,660
1996-97	378	84,409	9,245,325	1,150,787	10,396,112
1995-96	378	84,449	8,551,214	1,127,208	10,396,112
1994-95	378	84,449	6,816,804	1,058,084	7,874,888
1993-94	362	83,032	6,684,551	977,134	7,661,685

We did note one area where the assessment of TPZ land could be improved. Revenue and Taxation Code section 435(a) requires that the taxable value of timberland consist of the appropriate site class value described in section 434.5, plus any value attributable to existing, compatible nonexclusive uses of the land. The value of compatible uses is to be annually determined and added to the land value.

**RECOMMENDATION 5:** *Improve assessment procedures for TPZ land by discovering compatible, nonexclusive uses of TPZ land by periodically sending a questionnaire requesting such information to land owners.*

The assessor does not include the value of compatible, nonexclusive uses in the assessments of TPZ land. Once land is initially zoned and assessed as TPZ, there is little contact between the assessor's office and owners of TPZ land. Consequently, if there is income to the land from existing, nonexclusive, compatible uses (e.g., hunting, grazing), the income is not discovered.

The assessor should periodically send a questionnaire requesting information on compatible uses to the TPZ landowners. We recommend the assessor improve the discovery process for compatible, nonexclusive uses of TPZ land.

## **Mineral Properties**

Tuolumne County has an extensive history of mineral extraction that appears to be in its waning years. A large gold mine that was operating in Jamestown has ceased production and reclamation work is now in progress. There are only four or five active quarry operations in the county and approximately 160 unpatented mineral claims.

Producing mineral properties are a depleting resource, and after a few years, the current market value may be less than the adjusted base year value. Changes in the reserves associated with a property can be the result of changes in economics or the operating parameters of the property. In our prior survey, we recommended that the county recalculate reserves when appraising the mines and quarries. The county has not implemented this recommendation, so we are repeating it.

***RECOMMENDATION 6: Conform mineral property assessments to the requirements of BOE Rule 469(e).***

The assessor's valuation practice for operating mineral properties is to establish the base year value for the mineral rights, and adjust it annually by the California Consumer Price Index (CCPI). Once a base year value is determined, the assessor makes no analysis of the mineral property to determine if new reserves have been discovered, or if additional depletion has occurred. New mineral reserves, if they exist, are escaping taxation. Conversely, if mineral reserves have been depleted, the current property values may be excessive. Rule 469(e) outlines the general procedure for valuing operating mineral properties.

A primary step in valuing operating mineral properties is to establish the amount of proven reserves on the property. The most likely source for reserve information is the annual production report, although an independent evaluation may prove useful. The annual production report should be compared each year with information already available in the assessor's records.

After reserves have been estimated, the current market value for the property should be determined. The base year value must be adjusted to account for production, changes in reserves, new construction, and property removal. The result must then be adjusted by the CCPI. The current market value is then compared with the adjusted base year value of the property. The lesser of the two values should be the taxable value. We recommend the assessor conform mineral property assessments to the requirements of BOE Rule 469.

# PERSONAL PROPERTY VALUATION AND ASSESSMENT

## INTRODUCTION

For the 1997-98 assessment roll, the assessor's staff processed in excess of 1,300 business property statements that resulted in a total assessed value of approximately \$78,000,000. These numbers do not include boats, aircraft, taxable possessory interests, or taxable animals.

We take issue with the assessor on several of his practices relating to personal property assessments. These practices are (1) maintaining taxpayer property lists, (2) failure to perform all mandatory audits timely, (3) granting major assessment reductions without verifying taxpayer supplied information, and (4) using non-certificated personnel to value boats and aircraft. We believe that some of the changes we are recommending to current procedures will help the assessor by making more time available for audits.

## BUSINESS PROPERTY

### Audit Program

A comprehensive audit program is essential to the successful administration of any tax program that depends on information supplied by taxpayers. An audit program discourages deliberate underreporting and educates those taxpayers that unintentionally misreport. Audits are an important function of the business personal property assessment program of most county assessor's offices.

### MANDATORY AUDITS

The assessor is required, by Revenue and Taxation Code section 469, to audit financial records of persons who own, claim, control, or possess business tangible personal property and trade fixtures, with a full cash value of \$300,000, once every four years. BOE Rule 192 clarifies the statute by specifying that the value threshold must be reached on each of four consecutive lien dates. Assessments that fall within these guidelines are called "mandatory audits."

**RECOMMENDATION 7:**     *Improve the mandatory audit program by (1) completing all mandatory audits timely and (2) obtaining waivers of the statute of limitations when audits will not be completed timely.*

### Complete mandatory audits timely

Not all mandatory audits are timely completed in Tuolumne County. In April 1998, we identified 20 mandatory audit accounts which should be audited before June 30, 1998. Only two of these audits had been completed at the time of our field work. The assessor has since informed us that

all but six of these audits were completed by June 30, 1998. We recommend that the assessor complete mandatory audits timely.

#### Obtain Signed Waivers of the Statute of Limitations

Revenue and Taxation Code section 532 requires that an escape assessment be made within four years of July 1 of the assessment year during which the property escaped assessment or was underassessed. If the assessor cannot complete an audit within the prescribed time limit, section 532.1 allows the assessor to request a waiver of the statute of limitations from the taxpayer.

We discovered that a large corporation with a combined 1997 full cash value of \$33 million had not been audited since 1985. There was no waiver of the statute of limitations signed by the taxpayer. Therefore, if escapes are discovered during an audit, they cannot be enrolled for the 1985 to 1993 tax years.

The assessor does not seek a waiver of the statute of limitations for all potential auditees. By failing to request a waiver of the statute, the assessor may be allowing taxable property to escape assessment, if future audits discover escapes occurring in years outside the statute of limitations. Conversely, overassessments may not be discovered timely, thereby preventing some taxpayers from receiving refunds. We recommend the assessor obtain waivers of the statute of limitations whenever an audit cannot be completed on time.

#### NON-MANDATORY AUDIT PROGRAM

Although there is no law, other than section 469, that requires an assessor to audit, no audit program is complete unless it includes a representative sampling of all sizes and types of accounts. Errors in reporting acquisition costs on the annual property statement are a significant and common problem. Unless audits are performed, these reporting errors will probably continue. A taxpayer could intentionally underreport costs in order to cause assessed values to fall below the mandatory audit threshold, thus avoiding an audit. Selecting accounts at random for audit would help to reduce reporting errors, and discourage taxpayers from filing fraudulent business property statements.

#### ***SUGGESTION 6: Develop a non-mandatory audit program.***

The assessor has no non-mandatory audit program. Business property owners in Tuolumne County who do not qualify under Revenue and Taxation Code Section 469, as mandatory audits, have been virtually audit-free. We suggest the assessor develop a non-mandatory audit program.

Taxpayers with a history of failing to file a business property statement (BPS) are logical audit targets. Without a BPS, the assessor cannot readily determine which business property might be subject to the mandatory audit requirement. Therefore, this group of taxpayers is a logical starting point for the establishment of a non-mandatory audit program.

***SUGGESTION 7: Prepare a four-year history of taxpayers who fail to file business property statements.***

With the implementation of a new computer system, the assessor has generated an annual listing of taxpayers who fail to file property statements; however, there is no equivalent list of taxpayers with a multi-year history of non-filing. We suggest the assessor merge, into one list, the names of taxpayers who failed to file a BPS over the past four years, and use this list as a source of potential audits.

**Business Property Statement Processing**

Some personal property assessments are based upon data submitted by taxpayers on annual property statements. For fiscal year 1997-1998, the assessor's only auditor-appraiser processed assessments for 1,330 business property statements with an assessed value of \$77,939,402. These numbers do not include aircraft and boats.

When the assessor's staff determines values for personal property, the values are entered into the computer system without further review, with the exception of audit findings (including calculations) which are reviewed by the assistant assessor. However, our limited review discovered only a few errors in assessments resulting from the processing the business property statements.

**FILING REQUIREMENTS**

The processing of business property statements is one of the most important and time-consuming tasks of the business property section in every California assessor's office. Revenue and Taxation Code sections 441 to 452 describe filing requirements, contents of the statements, attachments, etc. The assessor must ensure that taxpayers not only timely file their property statements, but that the property statements are properly completed.

Revenue and Taxation Code section 441.5 allows taxpayers to complete a property statement by submitting attachments instead of entering information on the schedules contained in the printed form. The attachments are required to be in a format specified by the assessor and one copy of the property statement form, as printed by the assessor, must be executed by the taxpayer and carry appropriate references to the attachments.

***RECOMMENDATION 8: Do not accept property statements that fail to comply with statutory requirements.***

Our review found that, in some instances, depreciation schedules or fixed asset listings were simply attached to the business property statement, without reference to the attachment on the property statement form. In two instances we reviewed files where the taxpayer sent in a list of his leased equipment, but did not submit a completed business property statement.

The Revenue and Taxation Code is very specific in its requirement that attachments to property statements must be referenced on the statement form. The code is also specific in its requirement that a signed, completed BPS form must be submitted. Attempted property statement filings not meeting these conditions should be returned to the taxpayer for completion, with an explanation of what deficiency should be corrected in order to make the filing acceptable.

### **BPS PROCESSING**

In Tuolumne County, as in most California assessors' offices, the processing of business property statements is a tedious task. When received, prior to calculation of an assessed value, the statement is date stamped, economic lives are assigned, and, for previous filers, the business property statement is placed in the taxpayer's folder. For a new filer, the number of locations is determined, an account number is assigned, and a folder is created. All accounts go through the same process of calculating the assessed values, editing, batching, data entry of assessed values into a computerized roll production process, and refileing the folder.

In the Tuolumne County Assessor's Office, calculating the assessed values is an automated process that begins with the use of a schedule, maintained by the assessor, of taxpayer owned machinery and equipment, and leasehold improvements. This schedule is a line-item inventory of the taxpayer's property assessed for the prior year. The schedule is attached, for updating by the taxpayer, to every business property statement the assessor sends to a taxpayer.

The assessor's computerized valuation process for business personal property requires that assets be grouped by property type as well as by year of acquisition. Information furnished by the taxpayer on schedules contained in the BPS is entered in the assessor's computer program, then the data is sorted into the appropriate groups. The process is completed by the automated valuation activity.

### **Business Property Appraisal Record**

An important document always included in business property assessment records is the property valuation sheet. This document contains a summary of property values, both personal and real.

The values from this sheet are recorded on a form titled "business property appraisal record" (BPAR), commonly referred to in the assessor's office as the "top sheet." All property situated on a specific assessor parcel is listed on this BPAR. However, the sheet is not filed with the business property statement; it is maintained in a separate location in assessor's parcel number (APN) order.

***SUGGESTION 8: Simplify the processing of business property statements by discontinuing the use of the "business property appraisal record."***



Because the BPAR is filed by APN, it is an inconvenient source of information when only the taxpayer's name is available, and it has very little practical use. This form is similar to the "Master Property Record" (MPR), previously used by most county assessors in California, but obsolete with computerized assessment systems. In Tuolumne County, the use of this form is superfluous. Eliminating the annual requirement to manually update the form would provide additional time for audits. We suggest the use of the form be discontinued.

### **Direct Assessment**

Many California assessors use an assessment procedure for business personal property commonly known as "direct billing" or "direct assessment." When using this procedure, the assessor makes an assessment for certain types of business accounts without processing an annual business property statement. The accounts selected for this assessment process are those with equipment and supply costs that remain relatively constant from one year to another. There is considerable timesaving for the taxpayer and some timesaving for the assessor because there is no need to annually update the acquisition costs.

The direct assessment procedure is beneficial to the taxpayer and the assessor. It streamlines the filing requirements and paperwork for small businesses and requires less paperwork to be processed by the assessor, thereby freeing staff to conduct audits. Tuolumne County does not use a direct assessment program. The assessor should consider a direct assessment program.

### **General Equipment**

The taxable value of business property is most often developed by converting acquisition cost data, provided by property owners on their annual property statement, to taxable values. This conversion occurs by multiplying the reported acquisition costs by price change factors, also known as replacement cost new (RCN) factors, and percent good factors, which measure remaining value. A common technique used by assessors is a combination of the RCN factors and percent good factors into a single value factor that is applied against the reported acquisition cost.

The BOE has developed equipment RCN factors and percent good factors that are available to county assessors for their use in valuing business property. Annually the BOE publishes equipment RCN factors and percent good tables in Assessors' Handbook Section 581 (AH 581). The explanation of the derivation of equipment percent good factors can be found in Assessors' Handbook Section 582.

AH 581 contains two percent good tables. One table has a large selection of average service lives and can be used for nearly all machinery and equipment. The other table is for three special groups of equipment: mobile construction equipment, mobile agricultural equipment (except harvesters), and harvesters. Within each equipment group there are two columns representing percent good figures for new or used equipment.

The assessor uses a value factor in the computerized valuation process for business personal property. This factor is developed from information contained in AH 581. Our research indicates that the assessor uses the AH 581 information as intended.

## **Computers**

The assessment of computers and related equipment (herein referred to as computers) is a difficult one and has become more complex due to the rapid changes in technology and the changing needs of users. To address the complexity of the computers' short-lives, rapid depreciation, and low salvage value, the BOE periodically issues a Letter to Assessors (LTA) with recommended valuation factors. The LTA contains value factors for assessors to use when valuing non-production computers. The value factors are divided into schedules for computers costing \$25,000 or less, computers costing between \$25,000 and \$500,000, and computers costing \$500,000 or more. These valuation factors were developed after the elected Board members reviewed data accumulated by the Property Taxes Department staff, the Assessors' Association, and representatives of the computer industry. It is the BOE's position that the proper application of these factors would yield a reasonable estimate of current market value.

The assessor properly applied the valuation factors provided by the BOE for assessments of non-production computers in 1996 and 1997.

## **OTHER TAXABLE PERSONAL PROPERTY**

Other taxable personal property includes all taxable personal property whose primary use is not business related. The most common of these property types are boats, aircraft, and manufactured homes.

Revenue and Taxation Code section 670 requires that any person performing the duties of a property tax appraiser for an assessor's office hold an appraiser's certificate issued by the BOE. Determining the taxable value of property is considered to be a duty of a property tax appraiser.

In Tuolumne County a clerk who does not hold an appraiser's certificate issued by the BOE primarily performs the assessment of aircraft and boats. These duties include mailing demands for aircraft and boat property statements, receiving and reviewing property statements for completeness, calculating taxable values, entering the values into the computer database, and processing any roll corrections.

While we advocate the use of clerks to assist in the assessment process, a certified appraiser must make taxable value decisions. In Tuolumne County, a certified appraiser does review the work of the clerk, who performs most of the work preparing the assessments of boats and aircraft. We believe this practice is consistent with the requirements of Revenue and Taxation Code section 670.

## **Boats**

For the 1997-98 tax roll the Tuolumne County assessment roll listed 1,711 vessels with a total assessed value of \$21,534,145. Included in this total were 251 houseboats with a total assessed value of \$12,454,260. The primary sources of vessel discovery are Department of Motor Vehicles (DMV) reports, marina lists, and referrals from other counties. An annual field check of licensed houseboats complements the discovery program.

**RECOMMENDATION 9:** *Improve the vessel assessment program by (1) applying late filing penalties only when using BOE prescribed forms and (2) requiring certain vessel owners to file annual vessel property statements.*

### **LATE FILING PENALTIES**

The assessor uses his own Boat Owner's Property Statement instead of the BOE prescribed Form AH 576-D, Vessel Property Statement (VPS). If the statement is not returned by the taxpayer within the time allowed, the assessor adds a 10 percent penalty to the assessment, purportedly under the provisions of Section 463.

The 10 percent penalty provision of section 463 applies only if a BOE prescribed form is used. The assessor's boat owner's property statement is not a BOE prescribed form; therefore, the assessor cannot legally apply the late filing penalty. We recommend that the assessor apply penalties only when the BOE prescribed Vessel Property Statement is used.

### **PROPERTY STATEMENTS**

Revenue and Taxation Code section 441 requires owners of taxable personal property, with an aggregate cost of \$100,000 or more for any assessment year, to annually file a signed property statement with the assessor. When a vessel is first assessed in Tuolumne County, a boat owner's property statement is mailed to the owner, requesting pertinent assessment information. Subsequently, no other information is requested of boat owners unless the boat's ownership is transferred to someone situated in Tuolumne County.

Vessel owners, whose initial assessment was \$100,000 or more, may install additional taxable equipment. Requiring them to file a property statement will help in the discovery of this equipment and assist taxpayers in complying with the section 441 requirement that certain owners of personal property file a property statement. We recommend that each year the assessor send a vessel property statement (AH 576-D) to all vessel owners whose initial assessment was \$100,000 or more.

Owners of pleasure boats are required to register their boats with the Department of Motor Vehicles (DMV). This state agency maintains a computerized information file with the owner's name, address, boat type and class, and other pertinent information. When a boat owner sells or moves the boat to a new situs, DMV is notified and updates this computer file.

The DMV sends periodic reports to the county assessors' offices that list all boats registered in that particular county. To facilitate tracking of boat owners and boat location, the DMV permits assessor's offices to establish an on-line communications link that allows a Government Agency End User access to its database. The application packet for hook-up can be obtained directly from the DMV, and the DMV does not charge a fee for obtaining access.

***SUGGESTION 9: Obtain computer access to the DMV's vessel database.***

At the time of our survey, the assessor's office was not connected to the DMV information system. Without this access, the assessor's office suffers considerable delay and expends unnecessary effort in determining the correct situs and ownership information for pleasure boats. Having access to the DMV database would save considerable staff time in determining the assessability of pleasure boats. We suggest that the assessor establish a capability for electronically accessing the DMV's computerized database.

**Aircraft**

Tuolumne County assessed 157 general aircraft for the 1997-98 tax year, with a total assessed value of \$4,762,829. This does not include the 34 historical aircraft with an exempt value of \$780,342. The primary sources of discovery of assessable aircraft are airport managers' monthly activity reports, annual position listings provided by the Federal Aviation Administration, referrals from other counties, and statements from aircraft owners. There are two public airports in Tuolumne County, Columbia Airport and Pine Mountain Lake Airport

Revenue and Taxation Code section 5363 requires that the market value of aircraft in general aviation service shall be determined in accordance with the standards and guides to the market value of aircraft prescribed by the Board of Equalization (BOE). Prior to the 1997 lien date, the BOE published aircraft valuation data each year in Assessors' Handbook Section 587, *Aircraft Valuation Data*. The BOE no longer publishes this information and recommends instead that assessors determine market value by referring to a commercially published aircraft price guide.

On January 8, 1997, the BOE approved the *Aircraft Bluebook Price Digest* as the primary guide for valuing general aviation aircraft. For aircraft not listed in this price guide, the BOE approved the use of the *Vref Aircraft Value Reference*. The BOE further directed, in Letter to Assessors 97/03, that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date. In addition, an adjustment must be made to guidebook prices for sales tax, overall condition of aircraft, additional or special equipment, and airframe and engine hours since the last overhaul to determine current market value.

Variances from the values indicated by use of the recommended value guides must be based on reasonable, well-documented evidence. In Tuolumne County, value adjustments are routinely granted without documentation or field inspection. Adjustments are routinely granted based upon

a telephone call from a taxpayer, a declaration in the aircraft property statement, or information received from the owner regarding damage. We found several assessments that had been adjusted in this manner with no documentation to support value adjustments. The assessor should emphasize to his staff that all adjustments to the values indicated by the recognized value guides must be documented.

***RECOMMENDATION 10: Improve aircraft assessments by (1) conducting periodic field inspections and (2) requiring proof of the number of public display days before granting the historical aircraft exemption.***

### **FIELD INSPECTIONS**

Field inspections have always been a valuable tool of discovery and valuation for any county assessor's office. Field inspections should be an integral part of any assessment program. Only through field inspections can the condition of the aircraft and nonstandard equipment be discovered. Values can then be adjusted to arrive at a proper assessment.

The assessor has not made any field inspections of aircraft for the past four years. We recommend that periodic field inspections of general aviation aircraft be implemented.

### **HISTORICAL AIRCRAFT**

Revenue and Taxation Code section 220.5(d) defines an historical aircraft as an aircraft of historical significance which is (1) an original, restored, or replica of a heavier than air powered aircraft at least 35 years of age, or (2) any other aircraft of a type or model of which there are fewer than five in number known to exist worldwide.

Historical aircraft are exempt from property taxation when (1) the owner does not hold the aircraft primarily for purposes of sale, (2) the aircraft is not used for commercial purposes or general transportation, and (3) the aircraft is available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which the exemption is claimed. To meet the "display" test, the aircraft owner (1) must announce to the public the times and dates of display; (2) must display the aircraft at least four hours in each display date; and (3) must display the aircraft in an area accessible to and able to accommodate the public.

To claim the exemption, the owner of an historical aircraft has to submit a claim for exemption on or before the deadline of 5:00 p.m. on February 15. A filing fee of thirty-five dollars (\$35) is also charged and collected by the assessor upon the initial application for an exemption.

Our review of the historical aircraft assessment practices of the Tuolumne County Assessor showed a lax approach in enforcing the requirements for public display. This laxness is manifested by the large number of aircraft approved for the historical exemption without proof of the required public display days. We recommend that the assessor require that the schedule of

displays be properly filed and that the information be verified before granting an exemption for aircraft of historical significance.

### **Manufactured Homes**

A manufactured home, as that term is used for property tax purposes, does not include all manufactured homes as that term is used in the Health and Safety Code. A manufactured home that has been placed on a foundation system described in Health and Safety Code section 18551 is not a manufactured home for property tax purposes, but is instead considered an improvement to real property. A manufactured home is subject to local property taxation if (1) it was first placed in service on or after July 1, 1980, or (2) the owner voluntarily requests conversion of a pre-1980 manufactured home from vehicle license fee status to local property tax status. Revenue and Taxation Code sections 5800 through 5842 prescribe how manufactured homes are to be assessed. Sections 5801 and 5830 require that manufactured homes be assessed as personal property on the secured assessment roll.

***RECOMMENDATION 11: Assess manufactured homes as personal property on the secured assessment roll.***

The Tuolumne County Assessor currently assesses all manufactured homes on the secured assessment roll under the category of Personal Property Improvements (PPOP IMP), an assessment category that is usually used for fixtures. Manufactured homes are differentiated from fixtures by a special code that is assigned to the taxable value. This technique permits the owners to pay their property taxes at a tax rate that is applicable to personal property.

While this technique may result in an appropriate tax bill, manufactured homes are assigned a real property classification, not a personal property classification, as required by Revenue and Taxation Code section 5801(b)(2). The Tuolumne County secured assessment roll has a space for personal property that is assessed on the secured roll; it should be easy to move manufactured home assessments into this space. We recommend the assessor comply with the statute by assessing manufactured homes as personal property on the secured roll.

ASSESSOR'S

RESPONSE

TO

BOARD'S

RECOMMENDATIONS



DAVID W. WYNNE  
Assessor-Recorder

## COUNTY OF TUOLUMNE

Administration Center • 2 South Green Street • Sonora, CA 95370

## OFFICE OF ASSESSOR-RECORDER

Assessor: (209) 533-5535  
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July 28, 1999

RECEIVED

AUG 02 1999

County Property Tax Division  
State Board of Equalization

Charles G. Knudsen, Principal Appraiser  
County Property Tax Division  
Property Taxes Department  
P.O. Box 942879  
Sacramento, CA 94279-0062

Re: Tuolumne County Assessment Practices Survey

Dear Mr. Knudsen:

Pursuant to Section 15645 of the California Government Code, the following is the Tuolumne County Assessor's response to the recommendations contained in the Assessment Practices Survey of the 1997 assessment roll conducted by the State Board of Equalization survey team. Please incorporate my response in your final Assessment Practices Survey Report.

In reviewing my response, you will note that we agree with many of the recommendations and have already implemented or are planning to implement the changes necessary to achieve compliance. As noted on page 2 of the report, "The survey found no indication that significant assessment problems exist in Tuolumne County". I am pleased that most of the issues raised are minor technical matters that do not involve or affect the major duties and functions of the department. We will continue to strive to observe every aspect of the law in our assessment practices, to the extent that time and personnel resources allow.

I wish to thank you and the entire survey team for the professional and courteous manner in which the survey was conducted.

I wish to especially thank the assessor-recorder staff for their dedicated and professional efforts in producing a quality assessment roll every year.

Sincerely,

David W. Wynne  
Assessor-Recorder

enclosure



**RECOMMENDATION 1:**

*Prior to recommending a large reduction in assessed value, audit a taxpayer that appeals the assessment of business property.*

**BACKGROUND:**

Typically, an audit is used to check the accuracy of the taxpayer's reporting of the historical cost of personal property and fixtures. This recommendation stems from a single instance in which a total property valuation of land, improvements, personal property and fixtures was done using the income approach.

**RESPONSE:**

It is not common practice for our office to recommend large reductions in assessed value of business personal property without careful investigation. In this particular instance, we feel that the correct approach was used in valuing this property. An audit of the property owner's historical costs was not considered practical. However, an audit of the income and expenses used in the income approach would have been appropriate

**RECOMMENDATION 2:**

*Impose the penalty for non-response to the Change in Ownership Statement (COS).*

**BACKGROUND:**

Revenue and Taxation Code section 482 provides that if a person fails to file a COS within 45 days after a written request by the assessor, the assessor shall add a penalty to the assessment.

**RESPONSE:**

In an effort to obtain the information regarding a change in ownership, we have inadvertently extended the period of time to file a COS without a penalty. We will change our process so that no more than 45 days is allowed in which to return the statement.

**RECOMMENDATION 3:**

*Request that the board of supervisors conform their authorization for cancellation of low value supplemental assessments to the requirements of Revenue and Taxation Code section 75.55(b).*

**BACKGROUND:**

Revenue and Taxation Code section 75.55(b) allows a board of supervisors to enact an ordinance authorizing the assessor to cancel small supplemental assessments.

**RESPONSE:**

A resolution was enacted on March 2, 1993 to authorize the cancellation of these small supplemental assessments. At that time, the authorization was made in the form of a resolution instead of an ordinance. We will resubmit this to the board of supervisors in the form of an ordinance to comply with the wording of the statute.

**RECOMMENDATION 4:**

*Improve the possessory interest program by (1) assessing all PI's at the fairgrounds, (2) separately assessing PI's of houseboat owners, (3) conforming PI base year value determinations to Revenue and Taxation Code section 61(b)(2), and (4) using prescribed form BOE 502-P.*

**BACKGROUND:**

A taxable possessory interest (PI) exists whenever a private person has an exclusive right to the beneficial use of government owned real property.

**RESPONSE:**

In order to meet the definition of a PI, the right to the possession of the real property must be independent, durable and exclusive. (1) Some minor PI's at the fairgrounds may have been missed. (2) We agree and will assess the PI separately. (3) We will continue to do our best to interpret this section and apply it uniformly. (4) We annually send letters to approximately 20 different public agencies in an effort to assess all PI's. Use of the prescribed form will be implemented next year.

**RECOMMENDATION 5:**

*Improve assessment procedures for TPZ land by discovering compatible, nonexclusive uses of TPZ land by periodically sending a questionnaire requesting such information to land owners.*

**BACKGROUND:**

Revenue and Taxation Code section 435(a) specifies that the assessor shall add "the value, if any, attributable to existing, compatible, nonexclusive uses of the land."

**RESPONSE:**

We concur and will send a questionnaire to try to discover any such uses on TPZ lands.

**RECOMMENDATION 6:**

*Conform mineral property assessments to the requirements of BOE Rule 469(e).*

**BACKGROUND:**

The base year value of mineral rights on producing mineral properties must be established as of March 1, 1975 or as of the date of a change in ownership or as of the date production begins. The factored base year value should be compared annually with the current market value and adjustments should be made to allow for the addition or depletion of reserves.

**RESPONSE:**

We will make an effort to develop a program that will help us to comply with BOE Rule 469(e) on all mineral properties in the County.

**RECOMMENDATION 7:**

*Improve the mandatory audit program by (1) completing all mandatory audits timely and (2) obtaining waivers of the statute of limitations when audits will not be completed timely.*

**BACKGROUND:**

Revenue and Taxation Code section 469 requires the assessor to audit financial records of persons who own business personal property and trade fixtures with a full cash value of \$300,000 or more at least once every four years.

**RESPONSE:**

We recognize the importance of both portions of this recommendation and have been working toward full compliance. Since the influx of funding through AB719, we have been able to reduce part of the backlog of mandatory audits. With continued funding, we should be able to fully comply with this recommendation.

**RECOMMENDATION 8:**

*Do not accept property statements that fail to comply with statutory requirements.*

**BACKGROUND:**

Revenue and Taxation Code section 441.5 specifies that attachments to a business property statement (BPS) must be referenced on the statement form.

**RESPONSE:**

This is a very literal interpretation of this section of the Revenue and Taxation Code. In the interest of reduced mailing cost and taxpayer convenience, we have accepted attachments that are not explicitly referenced on the BPS as substantially complying with the code. There does not seem to be anything gained in enforcing this provision.

**RECOMMENDATION 9:**

*Improve the vessel assessment program by (1) applying the late filing penalties only when using BOE prescribed forms and (2) requiring certain vessel owners to file annual vessel property statements.*

**BACKGROUND:**

The BOE prescribed form, Vessel Property Statement, must be completed and returned to the assessor within the time allowed or a 10 percent penalty can be added pursuant to Revenue and Taxation Code section 463.

**RESPONSE:**

We concur. We have already switched to the BOE prescribed form.

**RECOMMENDATION 10:**

*Improve aircraft assessments by (1) conducting periodic field inspections and (2) requiring proof of the number of public display days before granting the historical aircraft exemption.*

**BACKGROUND:**

Revenue and Taxation Code section 5363 requires that the market value of aircraft shall be determined in accordance with the standards and guides to the market value of aircraft. Adjustments must be made to the guide's price for condition, additional equipment, engine hours since the last overhaul, etc.

**RESPONSE:**

(1) With only one auditor-appraiser, we must rely heavily on self-reporting by taxpayers for boats, businesses and aircraft. Without an increase in staffing, it would not be practical for one auditor to do field inspections of aircraft when there are mandatory audits that must be done by law. (2) We concur and have been more strict in accepting claims for historical exemptions.

**RECOMMENDATION 11:**

*Assess manufactured homes as personal property on the secured assessment roll.*

**BACKGROUND:**

Revenue and Taxation Code section 5801(b)(2) requires that manufactured homes be assessed as personal property on the secured assessment roll. This allows the taxpayer to pay their tax bill in two installments

**RESPONSE:**

We concur. We plan to change computer software within the next year and at that time we will put the values of manufactured homes into the personal property category.